

X1
BMR
83
89-2



Boston Municipal Research Bureau

BOSTON PUBLIC LIBRARY
GOVERNMENT DOCUMENTS DEPARTMENT
RECEIVED

APR 12 1989

SPECIAL REPORT

24 PROVINCE STREET, BOSTON, MASSACHUSETTS 02108 (617) 227-1900 No. 89-2

April 6, 1989

THE CITY OF BOSTON AND THE PROPOSITION 2 1/2 LIMIT(S)

Is Boston's property tax levy at or below the maximum Proposition 2 1/2 limit? As a result of the state budget debate about local aid, this question is being asked with different answers publicly offered. The fact is that since Boston has been able to increase its levy under Proposition 2 1/2, it has raised property taxes to the levy limit each year. A related question is whether the cut in most homeowners' tax bills this year indicates that the City is below the maximum limit. The answer is "no".

Proposition 2 1/2, approved as a state-wide tax limitation initiative petition by the voters in November 1980, actually imposes two separate limits on the annual property tax levy of Boston and other municipalities. The primary limitation (levy ceiling) of Proposition 2 1/2 is that the property tax levy cannot exceed 2.5% of the total full and fair cash valuation of all taxable real and personal property in the City. The City's levy reached the levy ceiling in fiscal 1984. Starting in fiscal 1985, a secondary limitation (levy limit) was applied which prohibits the levy from exceeding the preceding year's tax levy by more than 2.5% with exceptions allowed for new growth. Levy increases beyond this amount would require an override of Proposition 2 1/2.

In fiscal 1989, Boston's property tax levy of \$483.7 million is at the maximum levy limit, having increased by \$31.9 million or 7.0%. The full increase of 2.5% over the prior year's levy accounted for \$11.2 million of the total, while new growth accounted for \$20.7 million or 65.0% of the levy increase. With a taxable assessed value of \$35.4 billion, the fiscal 1989 levy represents 1.4% of the City's full and fair cash taxable value. Boston's tax levy is far below the levy ceiling but could not have been increased further this year except by an override approved by the voters.

CHANGE IN PROPERTY TAX LEVY

Fiscal Year	Taxable Value	Percent Inc. Over Prior Year	Tax Levy	Change In Levy Over Prior Year	Percent Change	Levy As % of Value	Tax Rate+	
							CIP	R
1989	\$35,433,672,139	22.9%	\$483,725,487	\$31,852,171	7.0%	1.4%	\$22.44	\$7.97
1988	28,823,626,591	19.0%	451,873,316	29,957,084	7.1%	1.6%	21.66	10.77
1987	24,215,440,075	19.6%	421,916,232	27,323,297	6.9%	1.7%	23.55	12.02
1986	20,249,421,480	33.5%	394,592,935	31,370,719	8.6%	1.9%	25.85	13.46
1985	15,169,715,345	13.8%	363,222,216	29,954,097	9.0%	2.4%	31.36	16.42
1984	13,335,388,886	9.5%	333,268,119	(41,343,180)	-11.0%	2.5%	32.54	17.10
1983	12,177,097,156	538.0%	374,611,299	(66,107,877)	-15.0%	3.1%	40.30	21.47
1982	1,908,701,500	0.4%	440,719,176	(77,956,224)	-15.0%	23.1%		
1981	1,902,000,000	NA	518,675,400	NA	NA	27.3%		

+ CIP = Commercial, Industrial and Personal Property Rate R = Residential Rate

Levy Ceiling

In fiscal 1981, the year Proposition 2 1/2 was approved, Boston's tax levy of \$518.7 million represented 27.3% of the total taxable value, far above the levy ceiling of 2.5%. Consequently, starting in fiscal 1982, Boston was required to reduce its tax levy by at least 15% from the preceding year's tax levy until the 2.5% limitation was

achieved. Boston reduced its levy by 15% in both fiscal years 1982 and 1983. A levy reduction of 11.0% in fiscal 1984 enabled Boston to reach the levy ceiling of 2.5%. Thus, over three consecutive years, Boston reduced its largest revenue source by a total of \$185.4 million or 35.7%. The requirements to reach the levy ceiling did give the City the incentive to quickly implement a complete revaluation of all taxable property. The larger the value, the less the levy would need to be cut. In fiscal 1983, Boston completed its first revaluation since the 1950's and taxable value jumped from \$1.9 billion in fiscal 1982 to \$12.2 billion. Boston's taxable value in fiscal 1989 is \$35.4 billion which translates into a levy ceiling of \$885.8 million. The current levy of \$483.7 million represents 1.4% of total taxable value which is typical for most municipalities in the Commonwealth. The tax levies in 77% of all cities and towns in Massachusetts are below 1.5% of taxable value. That is due to taxable value increasing more rapidly than the tax levy which is restricted by the levy limit.

Levy Limit

Once the levy ceiling is reached, a secondary limit, the levy limit, prohibits the tax levy from exceeding the preceding year's maximum tax levy by more than 2.5% with exceptions allowed for new growth. Specifically, the levy may increase beyond 2.5% each year as a result of the prior year's tax rate applied to the value of 1) new development, 2) residential value increases in excess of 50% and 3) commercial, industrial and personal property value increases greater than \$100,000.

GROWTH IN TAX LEVY

	Fiscal 1985	Fiscal 1986	Fiscal 1987	Fiscal 1988	Fiscal 1989	Change from FY85-FY89	% Change from FY85-FY89
Prior Year Levy	\$333,268,119	\$363,222,216	\$394,592,935	\$421,916,232	\$451,873,316	\$118,605,197	35.6%
2 1/2% Levy Limit	8,331,603	9,044,544	9,832,687	10,434,470	11,150,603	\$2,819,000	33.8%
New Growth	21,622,494	22,326,175	17,490,610	19,522,614	20,701,568	(\$920,926)	-4.3%
Total	\$363,222,216	\$394,592,935	\$421,916,232	\$451,873,316	\$483,725,487	\$120,503,271	33.2%
Increase	\$29,954,097	\$31,370,719	\$27,323,297	\$29,957,084	\$31,852,171	\$1,898,074	
% Increase	9.0%	8.6%	6.9%	7.1%	7.0%		
New Growth as % of Levy Increase	72.2%	71.2%	64.0%	65.2%	65.0%		

Boston was able to increase its levy beginning in fiscal 1985. Over the last five years, the City's tax levy has increased by an average of 7.7%. Each year the levy has increased by the full 2.5% with minor rounding down to insure an even tax rate to the penny. The City has aggressively captured new growth which has accounted for approximately two-thirds of the total annual levy increases. The property tax levy has been and is at the maximum allowable levy limit and could not have been increased further except by voter approval of an override of Proposition 2 1/2.

Homeowner Tax Bill Reduction

In fiscal 1989, most Boston homeowners received a reduction in their tax bills even while the City increased its property tax levy to the maximum levy limit. In recent years, Boston homeowners have paid relatively low tax bills as the City has fully implemented the classification law and shifted a larger share of the tax burden to business property. In addition, a 1988 amendment to the classification law enabled Boston this year to shift an even larger share of the tax levy to business property and to double the residential exemption. Residential property, which represents 57.5% of total taxable value, will pay 30.1% of the tax levy this year. More importantly, an increase in the residential exemption from 10% to 20% reduced \$36,032 from the value of each owner occupied dwelling. The result of all this is that the average single family tax bill in fiscal 1989 was cut by \$132 to \$1,013 and no tax revenue was lost as the City increased its levy by the full amount allowed without an override. Clearly, homeowners received a tax break in Boston through the legal shifting of the tax burden, not by a lessening of the levy below the maximum limit.